



# US Commercial Service In Mexico

## Expo Manufactura March 7-9 2006

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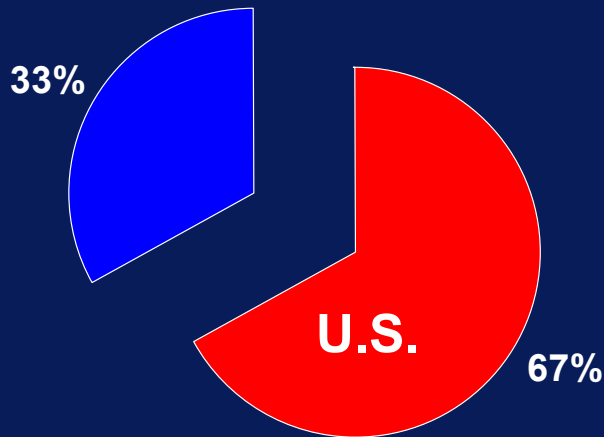


# Mexico – A Snap Shot

- **Pop: 104 million**
- **GDP per capita - US\$ 6,500**
- **Adjusted for Purchasing Power – US\$ 9,800**
- **74 percent urban**
- **Under 20 - 44 %**
- **Wealthy - 5%**
- **Upper Middle - 18%**
- **Middle Class - 37%**
- **Poor - 40%**

# U.S. Trade with Mexico

## Mexico's Bilateral Trade



- Second largest U.S. trading partner
- U.S. exports \$120 bn to Mexico (54% in manufacturing).
- Mexico exports \$172 bn to the U.S.
- Installed base of Foreign Direct Investment: over \$150 bn.
- Mexico's Export Manufacturing (Maquiladoras):
  - Concentrated in NE Mexico.
  - 80% U.S. owned.
  - Import \$70 bn (60% from U.S.)
  - 56,000 suppliers in U.S.



# Mexico – Outlook for 2006

- U.S. economy – we buy 80% of Mexico's exports
- GDP growth – 3.5% (3% in 2005)
- Inflation – 3.6% - 4.4% (3.3% in 2005)
- Macroeconomic stability
- Remittances, oil and tourism
- Presidential elections in July 2006
- Congressional deadlock



# The Impact of NAFTA

- Almost no tariffs on U.S. industrial exports to Mexico
- More than 85% of U.S. Goods enter duty-free
- By 2008, 100% will enter duty-free
- Elimination of Barriers
- Institution of Dispute Resolution Process
- U.S.-Mexico bilateral trade increased **232%**:
  - from \$88 billion in 1993 to \$292 billion in 2005

# The Future of NAFTA

- Clearly not about cheap labor
- It is about integration of the North American marketplace
- It is about moving up the value-added chain
- It is about maintaining and increasing competitiveness and productivity
- Mexico, like the U.S., fears losing its manufacturing sector to other countries – why? Over the last 5 years:
  - **China's exports to the U.S. grew 300%**
  - **Mexico's exports to the U.S. grew 30%**

# Beyond NAFTA: Multilateral Initiatives

## Partnership for Prosperity

- **Bilateral Initiative**
- **Private Sector Involvement**
- **Greater Economic Prosperity**
- **More Purchasing Power**
- **Decreased Migration**

## Security and Prosperity Partnership

- **Trilateral Initiative**
- **Building on NAFTA**
- **Security – Led by DHS**
- **Prosperity – Led by Commerce**



# **U.S. Commercial Service Mission**

- **Agency of the U.S. Department of Commerce.**
- **Helps small and medium size U.S. companies export goods and services.**
- **Protects U.S. business interests abroad.**
- **Network of 100+ offices in the U.S. and 160 worldwide.**



# Where We Are in Mexico





# Products & Services

- **Trade Counseling & Advocacy.**
- **Qualified Appointments for U.S. Companies.**
- **Partner Searches and Background Checks.**
- **Market Research.**
- **Single U.S. Company Promotions.**
- **International Buyer Program (IBP) for Mexican Companies.**
- **Trade Missions for U.S. Companies.**



# Marketing to Manufacturers in Mexico Program

**Goal: Increase US exports of goods/services to Mexican Manufacturers.**

- Identify key sectors and market trends through company visits, association partnerships, and market research.
- Highlight opportunities for you to export to these companies through our Trade Leads system.
- Help you locate qualified reps and customers through our services.
- Promote relevant trade shows like Expo Manufactura.
- Give updates on our findings through our domestic offices, electronic newsletters, and web/videoconferences.

# Manufacturing Remains Strong in Mexico

- Mexico's Industrial GDP has grown over 5% annually since 1999.
- In 2005, Industrial GDP reached \$176 billion.
  - \$87 billion was exported to the US (50%).
  - Industrial exports to US grew 6% from 1999-2005.
  - \$7 billion exported to other countries.

## While US manufacturing has changed dramatically:

- In past 4 years, US manufacturing employment has fallen 20%.
- Today only 10% of US workers are in manufacturing.
- As % of GDP: US industrial output is only 13%.
- **BUT:** overall US manufacturing output is growing 4%/year.

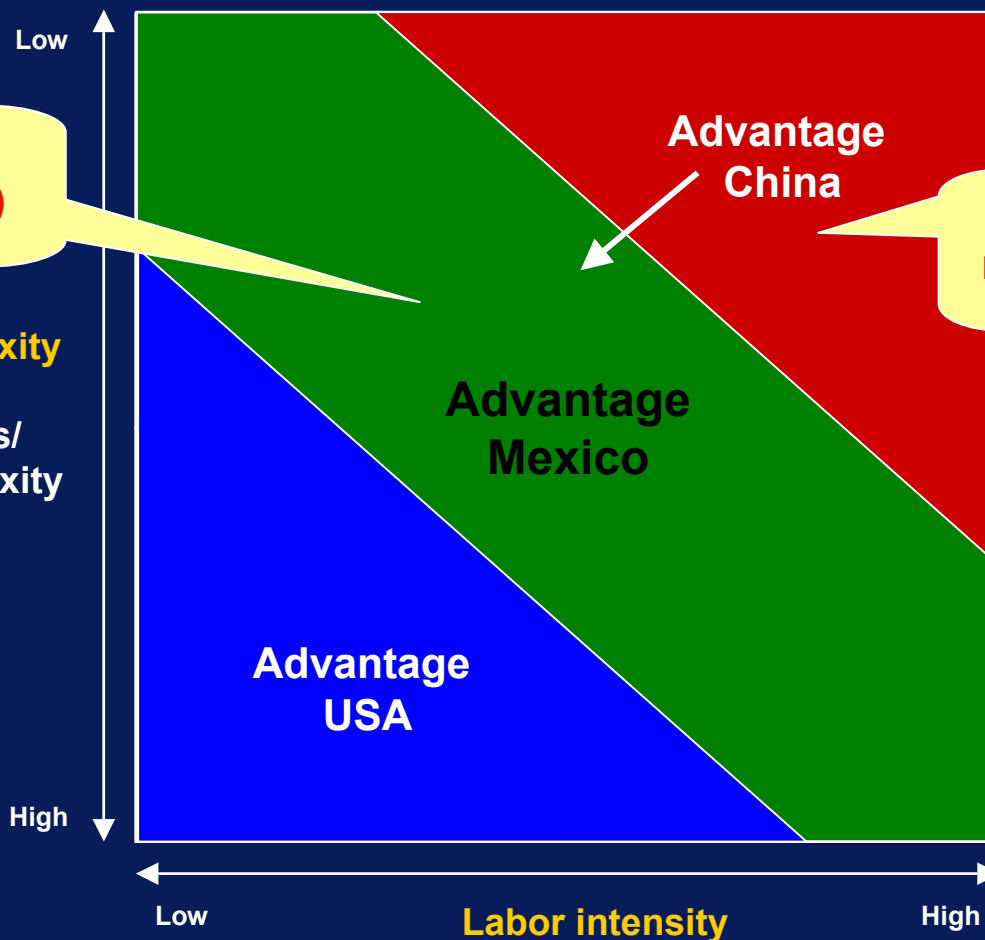
# Understanding Mexico's Manufacturing Sweet Spot

Success stories  
(castings, fridges)

## Supply Chain Complexity

- Short lead times
- Product Bulkiness/  
Transport complexity

Source: BCG  
2005





# What Can Help You Sell More to Mexican Manufacturers?

- **Good local representation.**
- **Knowing where purchasing decisions are made.**
- **Identification of your customers – 1<sup>st</sup> or 2<sup>nd</sup> tier?**
- **Assessment of customers as suppliers.**
- **Finding out what your customers need.**
- **Understanding what financial tools are at your disposal to offer financing.**
- **Balancing risk of offering financial terms to your customers.**
- **Following up!**



# CS Mexico's Monthly Web Seminars

- Series of Web-hosted Seminars on the Mexico Market
- Local and U.S. – based experts
- Learn about the Mexican market from your desk!
- Next Seminar: Thursday, March 16, 2006 at noon EST
- Topic: **Getting Paid by Your Mexican Buyer**
- Sign up online: [www.buyusa.gov/mexico/en/](http://www.buyusa.gov/mexico/en/)

# CS Mexico Results

Oct 2004 – Sept 2005



**We helped U.S. companies obtain 540 distinct export sales**

- 160 days of appointments arranged for U.S. companies.
- 103 trade events (trade missions, seminars, etc.).
- 20 Mexican delegations to U.S. trade shows.

## **Interagency Representation:**

- U.S. Export-Import Bank.
- U.S. Trade Development Agency (TDA).
- U.S. Overseas Private Investment Corporation (OPIC).





# Thank You!

## How to Contact Us

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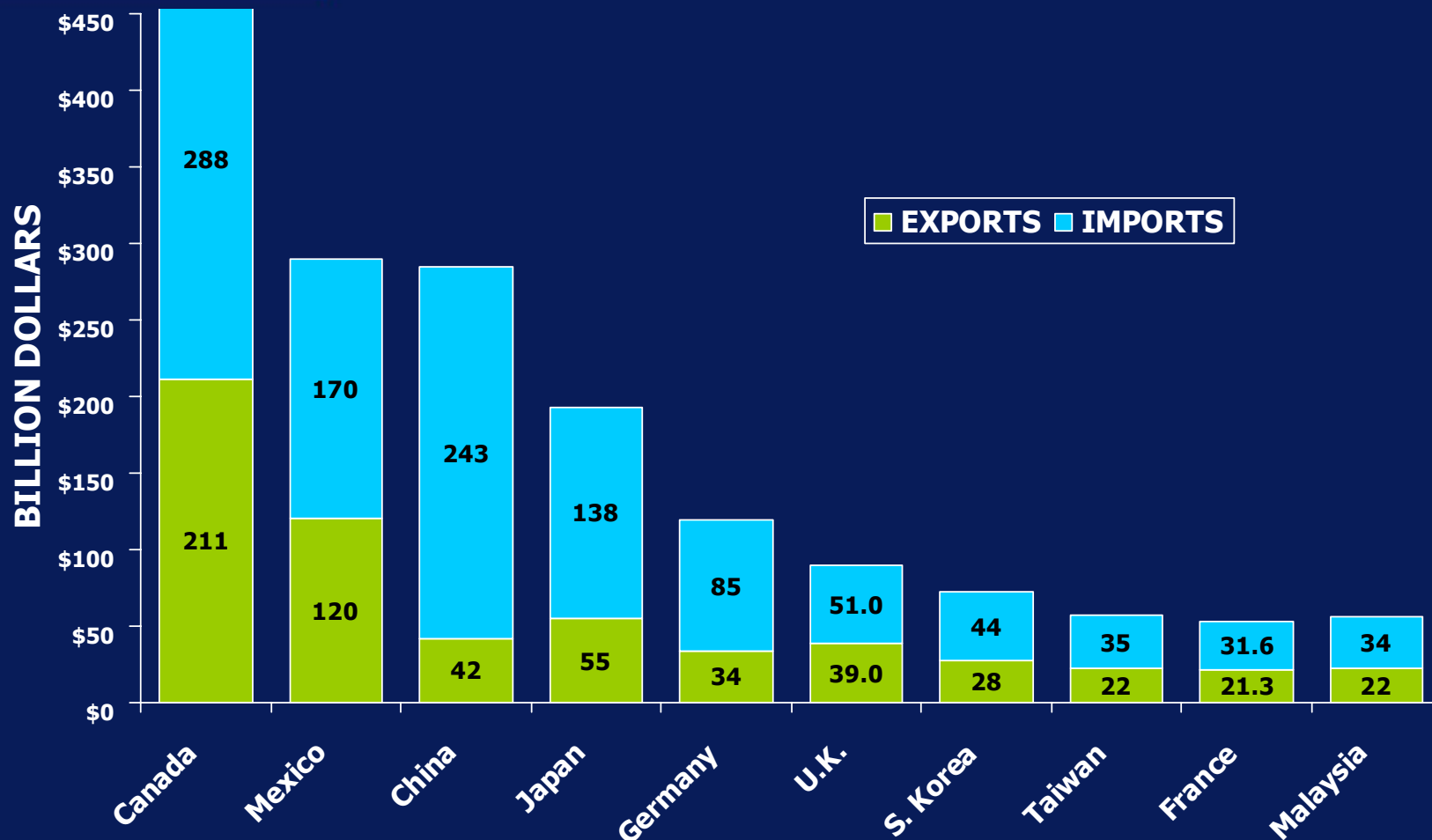
[www.buyusa.gov/mexico/en/](http://www.buyusa.gov/mexico/en/)



# APPENDIX



# TOP U.S. TRADING PARTNERS in 2005





# Why Does this Challenge Matter to the USG?

**Strong Regional Growth in NAM and in LAM is in US Interests.**

- **A strong neighbor improves:**
  - Security for business, political stability, reduction in narcotics.
  - Reduction in illegal immigration to the US.
  - Market for US goods and services.
- **NAFTA as an example of healthy trade.**

**Mexico's Special Relationship with US**

# What Would Companies Like to See Improved in Mexico?

- **Better Energy Infrastructure.**
- **Improved Primary, Secondary, Technical, English Education.**
- **Better Access to Capital.**
- **Less bureaucracy for business.**
- **Better roads, rail, ports.**
- **Less corruption/more efficient legal system.**
- **Better border security and megacity security.**
- **More enforcement of IPR laws.**
- **Harmonization of regional standards.**

# Issues/Challenges

- **Regional Competitiveness: beyond NAFTA.**
  - Security and Prosperity Partnership (SPP/ASPAN).
  - Partnership for Prosperity (P4P).
- **Focus for Northern Mexico:**
  - Increased competition from China/India.
  - Security at the border.
  - Infrastructure: Energy, Transport, Education.
  - Intellectual Property/Rule of Law.
  - Bureaucratic/Regulatory Environment.

# Mexico's Competition: China

- Foreign Direct Investment from U.S.
- Research and Development.
- Education in Engineering, Science, Math, Business.
- Disaggregation of Business Model due to Technology.
- Shift in Supply Chain: Where are Your Customers?
- China's exports to the US have grown 300% in the last 5 years.

## Why Do We Care About Mexico's Loss and China's Gain?

- 6 to 1 trade imbalance with China vs. 1.4 to 1 for Mexico.
- We know it's harder to export to China.
- So US suppliers depend on Mexico's economic health.

# U.S. Exports to Mexico



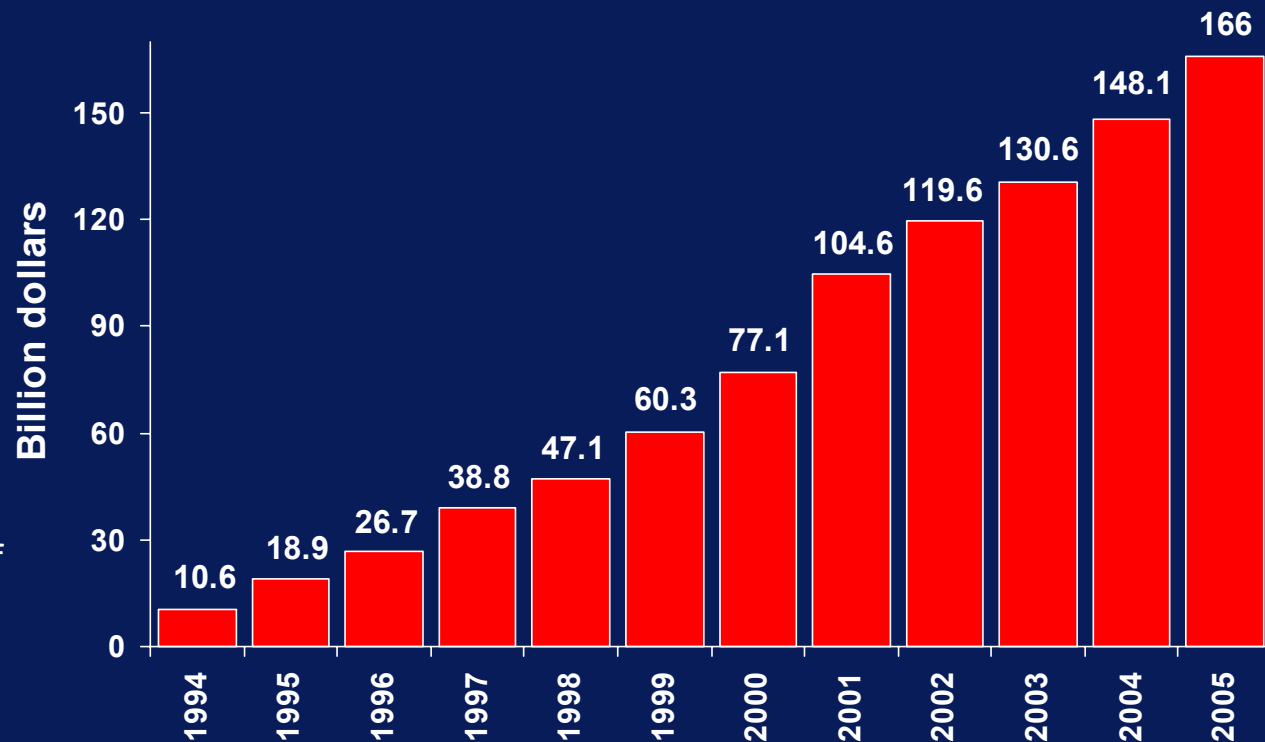
Source: International Trade Administration, U.S. Department of Commerce.





# Foreign Direct Investment in Mexico

Accumulated FDI 1994-2004: \$166 billion



Source: Secretariat of  
Economy, General  
Directorate of Foreign  
Investment.

# Mexico's Advantages

- **NAFTA! Access to Goods/Services/Market in U.S.**
- **Proximity to World's Best Consumer Market.**
- **Forced Disruption to Mexican businesses since 1993. Complete?**
- **Shared Culture: Western, Hispanic.**
- **Large installed base of manufacturing in various sectors.**
- **Perception of stronger legal protections than in China.**
- **Seen as politically stable.**
- **Macroeconomic stability.**

**Location, Location, Location...**

# China's Advantages

- Lots of people. Employees, Consumers.
- Lots of smart people. Technical Employees, Rich Consumers.
- Clusters of manufacturing in all sectors. Trained Employees, Supply Chain.
- Steady, Fast Growth.
- Diaspora and Return.
- Cheap Energy.
- Government's Pragmatic Dedication to Economic Growth. Domestic and Foreign Policy.

**“It doesn't matter if a cat is black or white...”**

# China's Disadvantages

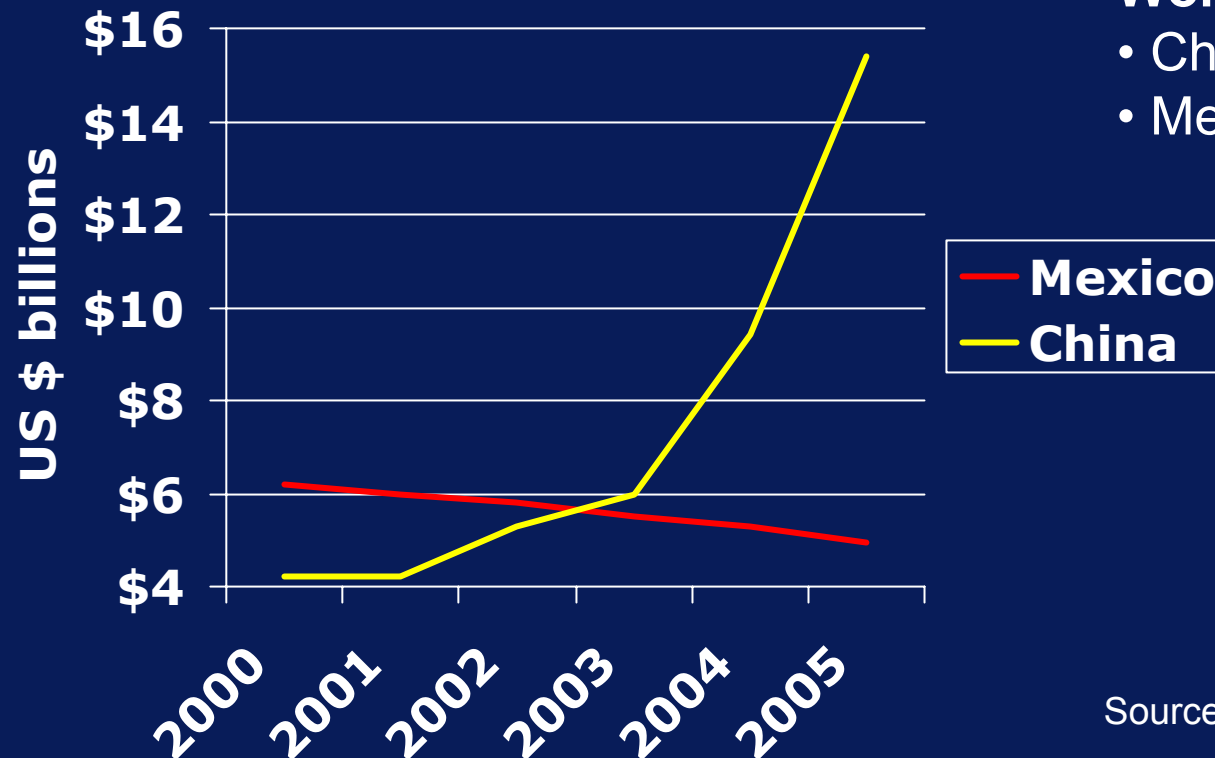
- **Political Stability.** Glasnost when?
- **Security Situation.** Nuclear neighbors, Encirclement, Taiwan.
- **Legal Structure.** Murky, Uncharted for IPR, other protections.
- **Cultural Challenge.** Middle Kingdom, inaccessible language, philosophy foreign to Western minds.
- **Not known for customer service orientation.**
- **Distance from current consumer markets,** both physical and symbolic.
- **Potential for Political Backlash from US and Europe.**



# China's Dominance: Textile Exports to U.S.

## Workers in Sector:

- China: 30 million
- Mexico: 700,000



Source: El Norte 9 Nov 05



# Textiles: Not Just China

- **Worldwide Quota System: ended December 2004.**
- **US clothing imports from:**
  - **China: up 71% last year, to \$8.2 billion.**
  - **India: up 34% last year, to \$2.7 billion.**
  - **Bangladesh: up 24%, to \$2.23 billion.**
  - **Indonesia: up 17%, to \$2.7 billion.**
  - **Sri Lanka up 18%, to \$1.7 billion.**
- **CAFTA may increase competition from Central America and DR.**
- **But Asia now dominates this entire sector.**

# U.S. Share of Maquila Imports

U.S.  
COMMERCIAL  
SERVICE  
*United States of America*  
Department of Commerce

